

Legislation

OLL 85-1015

29 March 1985

MEMORANDUM FOR: See Distribution

FROM: Chief, Legislation Division
Office of Legislative Liaison

SUBJECT: OPM Supplemental Retirement Plan

1. The Agency has been requested to comment on the attached draft "Federal Employee's Retirement System Act of 1985", which represents OPM's proposed new retirement system for those Federal employees (hired after December 31, 1983) who are covered by Social Security. I would appreciate receiving your comments on the attached proposal no later than COB Friday, 12 April 1985.

2. As you know, the Social Security amendments of 1983 provided that new Federal employees hired on or after January 1, 1984 would be covered under Social Security. These amendments presently apply with respect to all newly hired Agency employees. During the past two-year period, we have been operating under a special transitional retirement system for these newly hired employees with the understanding that an entirely new retirement system, intended to supplement Social Security, would be established for these new employees by the end of 1985. The attached Federal Employee's Retirement System Act that is proposed by OPM sets forth this new retirement system.

3. The attached proposal would establish a defined contribution plan wherein employing agencies would contribute 11.6% of each employee's wages to a retirement fund to be held in an account in the Treasury for that employee. This 11.6% contribution would be funded through specific appropriation by the employing agency and would not be taken out of the employee's salary. The employee would, of course, still pay a percentage of his salary for Social Security coverage. In addition, the employee could voluntarily contribute up to \$5,000 per year into a Federal employee IRA. Benefits under both the defined contribution plan and this voluntary IRA would be available at age 59-1/2. Early retirement under the proposal would continue to be permitted for law enforcement officers, fire fighters, and air traffic controllers.

4. As you are aware, the Director, in correspondence with OMB, has requested that the Agency's employees be exempted from certain of the Administration's proposed retirement changes, including specifically those changes affecting early retirement for specific groups of Federal employees. While OMB has orally consented to exempt CIARDS participants from certain of these proposed changes, no decision has yet been made by OMB to expand this exemption to include CIA Civil Service participants. In providing your comments on the attached bill, you should assume that Agency employees hired on or after December 1, 1984 will be subject to the proposal's provisions.

5. I will be happy to provide additional information or answer whatever questions you may have with respect to the attached proposal

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Attachment:
As Stated

Distribution:

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United States
**Office of
Personnel Management**

Washington, D.C. 20415

In Reply, Refer To:

Your Reference

Honorable David A. Stockman
Director
Office of Management and Budget
Washington, D.C. 20503

MAR 11 1985

Attention: Assistant Director
for Legislative Reference

Dear Mr. Stockman:

The Office of Personnel Management has prepared the enclosed legislative proposal, "To amend title 5, United States Code, to establish a Federal Employees' Retirement System to supplement Social Security benefits, and for other purposes," together with appropriate accompanying documents.

Since January 1, 1984, new Federal employees and certain other individuals in all three branches of Government have been covered by Social Security. The existing Civil Service Retirement System predated the Social Security System and, thus, was designed to stand alone as the sole source of retirement income. There is a consensus, expressed in Public Law 98-168, that Social Security coverage for Federal employees should be supplemented by an employer-sponsored staff retirement plan, as it is for many private sector employees.

The enclosed proposal would establish a system to provide additional retirement income to new Federal employees who would be covered by Social Security. The cost of this defined contribution plan would be in line with the pension costs of generous private sector pension plans, about 19 percent of pay including the employer share of Social Security taxes. All of the money would be invested in Treasury securities.

We would appreciate receiving your advice as to whether the submission of this legislative proposal to Congress would be consistent with the Administration's program.

Sincerely,

A handwritten signature in dark ink, appearing to read "Donald J. Devine", with a stylized flourish at the end.

Donald J. Devine
Director

Enclosures



United States
**Office of
Personnel Management**

Washington, D.C. 20415

In Reply, Refer To:

Your Reference

Honorable George Bush
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

The Office of Personnel Management submits herewith a legislative proposal, "To amend title 5, United States Code, to establish a Federal Employees' Retirement System to supplement Social Security benefits, and for other purposes." We request that you refer this proposal to the appropriate committee for early consideration.

There is an urgent need to create a supplemental retirement program for new employees hired after January 1, 1984. After that date, new Federal employees and certain other individuals in all three branches of Government have been covered by Social Security, but without any permanent additional staff retirement plan. The existing Civil Service Retirement System predated the Social Security system and, therefore, was designed to stand alone as the sole source of retirement income. With the passage of Public Law 98-168, a Congressional consensus was created to adopt a complementary staff retirement plan for Federal employees.

A recent study for the executive branch by the consulting firm of Towers, Perrin, Forster and Crosby found that benefits under the present retirement system are distributed very unequally. They found that about 45 percent of new entrants into the existing retirement system actually subsidized that system, and another 15 percent received few real benefits. Others, retiring as early as age 55, do very well. The system is nonetheless costly compared to plans in the private sector. The consulting firm found that the actuarial cost to the Government is 28 percent of its payroll, compared to the average non-Federal retirement plan in the private sector including Social Security, of 17 percent of payroll. And the dynamic unfunded liability is an incredible \$528.1 billion. Since employees contribute only seven percent of pay to the system the remaining 80 percent of the cost must be borne by the taxpayer.

The Administration proposal would avoid the unfairness of the present system. Its major feature would add to Social Security a wholly Government-supported defined contribution retirement system. Employees will pay nothing beyond Social Security. The new system will avoid the bias in favor of very long-term employees, by providing full vesting rights after just one year of employment. Most employees would be able to receive benefits, rather than the many subsidizing the few. A Federal employee IRA is established with contributions up to \$5,000 per year with benefits available at age 59 1/2, the same as for a private IRA. The total

Honorable George Bush

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cost to the Government would be 19 percent of payroll, above the average value in the private sector and comparable to the level of benefits offered by Fortune 500 corporations. Employees covered under the existing system would be eligible to transfer to the new system. We expect many employees with relatively short periods of service to exercise this option.

Specifically, the proposal includes the following major provisions:

- Agencies would contribute 11.6 percent of pay to the supplemental plan, plus an additional amount for certain special features, such as disability benefits. Although employees would not be required to contribute any funds to the basic defined contribution plan, they could contribute up to \$5,000 annually to a special Federal employees savings account. Benefits would depend on these amounts, plus interest earned by this money.
- Employees could retire as early as age 59 1/2 with as little as one year of service. That is, vesting would take place after one year. Retirement under Social Security, of course, cannot take place even for reduced benefits until age 62.
- Employees could elect a variety of forms of annuity, including an annuity with annual increases based upon inflation (COLA), or they could receive a lump-sum payment for the balance in their account.
- Early retirement would continue to be permitted for law enforcement officers, firefighters, and air traffic controllers. In order to make early retirement feasible, a special supplement will be paid to these employees until Social Security begins at age 62. These special benefits will be pre-funded through a surcharge to agencies employing each of these special employees.
- Amounts owed to individuals would be separately identified and balances kept separately, but funded through the existing Civil Service Retirement System account and managed by the Office of Personnel Management.
- The unfunded liability of the existing Civil Service Retirement System would be paid off by the Treasury in forty years, thus ensuring that sufficient funds would be available so that the system can meet its remaining obligations.

We believe the supplemental retirement plan would serve as a sound recruitment and retention incentive for Federal employees and would achieve a much needed balance between the desire of Federal employees to have a good retirement system and the demands of the Nation's taxpayers for restraint in the costs of Government programs. It would be fully funded, rather than create a half trillion dollar liability. Most importantly, it would be fair to all Federal employees.

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Honorable George Bush

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The Office of Management and Budget advises that enactment of this proposal would be in accord with the program of the President.

A similar letter is being sent to the Speaker of the House of Representatives.

Sincerely,

Donald J. Devine
Director

Enclosures

Honorable George Bush

3

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Enclosures



United States
**Office of
Personnel Management**

Washington, D.C. 20415

In Reply, Refer To

Your Reference

Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

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